

Message Text

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FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC IMMEDIATE 6074
INFO ALL EC CAPITALS

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E.O. 11652: N/A
TAGS: EEC, EFIN
SUBJ: EC FINANCE COUNCIL, APRIL 17, 1978

REFS: (A) COPENHAGEN 2345; (B) COPENHAGEN 2400; (C)
BRUSSELS 5612

1. SUMMARY: THE EC FINANCE COUNCIL HELD A SHORT MEETING
APRIL 17 TO DECIDE THE PROCEDURAL TIMETABLE FOR FORMAL
COUNCIL DISCUSSION, DURING MAY AND JUNE, OF THE APRIL 7-8
EUROPEAN COUNCIL'S CONCLUSIONS CONCERNING COMMUNITY
GROWTH OBJECTIVES FOR MID-1979 AND POSSIBLE COMMUNITY
ACTIONS IN THE MONETARY SECTOR. THE FINANCE MINISTERS
ALSO AGREED ON COMMUNITY POSITIONS FOR THE APRIL 29-30
MEXICO CITY MEETING OF THE IMF INTERIM COMMITTEE AND
AGREED IN PRINCIPLE TO A NEW DIRECTIVE ON COORDINATION
OF MEMBER STATE LEGISLATION IN THE CO-INSURANCE SECTOR.
END SUMMARY.

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2. FOLLOW-UP TO COPENHAGEN SUMMIT:

DURING THEIR FORMAL COUNCIL SESSION, THE MINISTERS DID
NOT ADDRESS THE SUBSTANCE OF THE APRIL 7-8 COPENHAGEN
EUROPEAN COUNCIL'S DISCUSSION OF POSSIBLE NEW ACTIONS IN
THE MONETARY SECTOR (REFS A AND B); UK CHANCELLOR OF THE

EXCHEQUER HEALEY DID TELL REPORTERS, HOWEVER, THAT THE SUBJECT WOULD BE TAKEN UP DURING THE MINISTERS' RESTRICTED LUNCHEON FOLLOWING THE COUNCIL MEETING. COMMISSION AND PERMREP OFFICIALS CONTINUE TO PROFESS TO US THEIR TOTAL IGNORANCE OF WHAT TRANSPIRED IN COPENHAGEN MONETARY DISCUSSIONS, POINTING OUT THAT, FOR ONCE, FRG CHANCELLOR SCHMIDT HAS HAD HIS WAY ON PROTECTING THE CONFIDENTIALITY OF SUMMIT DEBATE.

3. OUR SOURCES DO AGREE THAT, WITH THE GERMANS AND FRENCH APPARENTLY NOW IN FAVOR OF EC MOVEMENT ON THE MONETARY FRONT, PROGRESS IN THAT SECTOR WILL DEPEND IN LARGE PART ON BRITISH AND ITALIAN ATTITUDES. AT A BACKGROUND PRESS BRIEFING FOLLOWING THE COUNCIL MEETING (BUT BEFORE THE RESTRICTED LUNCHEON MEETING) HEALEY TOLD REPORTERS THAT THE MINISTERS REAFFIRMED THE COPENHAGEN SUMMIT'S CALL FOR A COMMON STRATEGY COVERING ECONOMIC AND MONETARY AFFAIRS, EMPLOYMENT, ENERGY, TRADE, INDUSTRIAL AFFAIRS, AND RELATIONS WITH THE DEVELOPING WORLD. IN RESPONSE TO QUESTIONING, HE SAID THAT THE UK WOULD BE PREPARED TO LOOK AT A NEW SCHEME FOR A EUROPEAN CURRENCY ZONE IF TWO PROVISOS WERE MET: SUCH A SCHEME SHOULD NOT BE INTENDED AS A DIVERSION FROM ACHIEVEMENT OF HIGHER GROWTH RATES, AND IT SHOULD NOT HAVE THE EFFECT OF BEING "ANTI-AMERICAN". HEALEY CONCEDED THAT THERE WOULD BE SOME ADVANTAGE TO HAVING STABILITY AMONG EUROPEAN CURRENCIES, BUT HE EMPHASIZED THAT THIS WOULD HAVE TO BE MATCHED BY LIMITED OFFICIAL USE

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CONVERGENCE IN ECONOMIC PERFORMANCE. THE MAIN PROBLEM AT THE MOMENT, HE SAID, IS NOT BETWEEN THE DEUTSCHMARK AND OTHER EUROPEAN CURRENCIES BUT RATHER IN THE TRIANGULAR RELATIONSHIP AMONG THE DEUTSCHMARK, THE YEN, AND THE DOLLAR. HE CONCLUDED THAT, IF GREATER WORLD CURRENCY STABILITY IS THE OBJECTIVE, A PURELY EUROPEAN SOLUTION WOULD NOT DO MUCH GOOD, BUT THEN AGAIN, HE ADDED, IT WOULD NOT DO MUCH HARM EITHER.

4. THE MINISTERS DID FOCUS SPECIFICALLY ON THE 4.5 PERCENT JULY 1979 GROWTH TARGET ESTABLISHED BY THE COPENHAGEN SUMMIT. HEALEY TOLD REPORTERS THAT HE FEELS THE 4.5 PERCENT TARGET IS THE "RIGHT APPROACH", BUT HE ADDED THAT, DURING THE COUNCIL MEETING, FRG FINANCE MINISTER MATTHOFER "EXPRESSED SOME DIFFICULTY" IN UNDERSTANDING WHAT THE TARGET MEANS: REAL GROWTH AT THAT RATE THROUGHOUT A TWELVE-MONTH PERIOD, OR SIMPLY ACHIEVEMENT OF THAT GROWTH RATE BY JULY 1979. ACCORDING TO HEALEY, EC COMMISSION VICE PRESIDENT ORTOLI SAID THAT HE VIEWS THE TARGET IN THE LATTER TERMS--ACHIEVEMENT OF A 4.5 PERCENT RATE BY JULY, 1979.

5. COMMENT: MISSION IS SOMEWHAT SURPRISED AT ORTOLI'S REPORTED ACQUIESCENCE IN THIS INTERPRETATION, WHICH IS CONSIDERABLY LESS AMBITIOUS, SINCE WE ARE IN POSSESSION OF A CONFIDENTIAL COMMISSION PAPER SENT TO THE COPENHAGEN SUMMIT WHICH CLEARLY ADVOCATES ACHIEVING A 4.5 PERCENT GROWTH RATE OVER THE TWELVE MONTH PERIOD, NOT JUST BY THE END OF THE PERIOD. (COPY BEING SENT TO EUR/RPE-GELBARD.) HOWEVER, LESS AMBITIOUS VERSION WAS CONFIRMED TO US BY ORTOLI'S CABINET. THEREFORE, IT SEEMS CLEAR THAT THE COMMISSION HAS BEEN FORCED TO RETREAT FROM ITS ORIGINAL PROPOSAL. END COMMENT.

6. MATTHOFER TOLD REPORTERS AT HIS OWN BACKGROUND BRIEFING THAT HE IS NOT CERTAIN QUANTITATIVE GROWTH TARGETS LIMITED OFFICIAL USE

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HAVE ANY VALUE, AND THAT THE 4.5 PERCENT TARGET, IN PARTICULAR, MAY BE TOO HIGH. HE EMPHASIZED THAT THE FRG

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WOULD BE HAPPY TO REACH THAT TARGET, BUT THAT THERE ARE NO

"PANACEAS". HE SAID THAT THE FRG IS AIMING FOR 3.5 PERCENT GROWTH DURING CALENDAR 1978 AND THAT IT WILL NEED 4.5 PERCENT GROWTH TOWARD THE END OF 1978 JUST TO ACHIEVE THIS LOWER TARGET. HE SAID THAT ECONOMIC INDICATORS AT THE MOMENT ARE NOT VERY ENCOURAGING, CITING THE WEAKNESS OF THE DOLLAR AND ITS NEGATIVE EFFECTS ON GERMAN GROWTH EFFORTS. MATTHOFER ASSERTED THAT, IF THE EC REALLY INTENDS TO REACH A 4.5 PERCENT TARGET BY MID-1979, IT WOULD MEAN THAT GERMANY WOULD HAVE TO ATTAIN AT LEAST A 6 PERCENT GROWTH RATE. SUCCESS, HE INSISTED, WILL DEPEND TO A LARGE EXTENT ON STRENGTHENING OF THE DOLLAR THROUGH SUCH MEANS AS U.S. ANTI-INFLATION MEASURES AND ENERGY POLICY. FRG ECONOMIC MINISTRY STATE SECRETARY SCHLECHT, WHO TOOK PART IN MATTHOFER'S PRESS CONFERENCE, TOLD REPORTERS THAT THE UNOFFICIAL GERMAN GROWTH TARGET FOR 1979 IS 4.5 PERCENT, BELOW THE 6 PERCENT MATTHOFER SAID WOULD BE NECESSARY TO ASSIST THE EC AS A WHOLE IN MEETING ITS TARGET. MATTHOFER HIMSELF CONCLUDED THAT, GIVEN LIMITED OFFICIAL USE

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GROWTH PROSPECTS IN OTHER MEMBER STATES, THE 4.5 PERCENT EC TARGET IS DOUBTFUL FOR MID-1979.

7. ASKED BY REPORTERS ABOUT POSSIBLE ADDITIONAL GERMAN EXPANSION MEASURES, MATTHOFER REPLIED THAT NEITHER THE FEDERAL GOVERNMENT, NOR THE LANDER, NOR THE MUNICIPAL GOVERNMENTS WOULD BE ENCOURAGED TO TAKE UP NEW CREDITS FOR THE PURPOSE OF STIMULATING GROWTH OUTSIDE GERMANY. ANY SUCH DECISION WOULD ONLY BE TAKEN ON THE BASIS OF BENEFITS FOR GERMANY ITSELF. HEALEY TOLD REPORTERS THAT IT WAS HIS IMPRESSION THE GERMANS MAY SHOW SOME MOVEMENT ON GROWTH POLICY AFTER THEIR ASSESSMENT IN MAY OF THE RESULTS OF THEIR JANUARY PACKAGE OF NATIONAL ECONOMIC MEASURES (REF C). TRYING TO MOVE THE GERMANS ON GROWTH, SAID HEALEY, IS "A BIT LIKE ROWING A BOAT THROUGH COLD TREACLE." HEALEY SAID THAT THE UK ITSELF WOULD NOT CONSIDER FURTHER ECONOMIC EXPANSION UNTIL AFTER THE BONN ECONOMIC SUMMIT, AT THE EARLIEST. HEALEY QUOTED FRENCH FINANCE MINISTER MONORY AS SAYING IT IS ABSOLUTELY ESSENTIAL THAT THE EC MOVE TO A GROWTH RATE COMPARABLE WITH THOSE OF THE U.S. AND JAPAN. HEALEY ADDED, HOWEVER, THAT ONLY DUTCH FINANCE MINISTER ANDRIESSEN SAID HIS COUNTRY WOULD DEFINITELY INTRODUCE NEW EXPANSION MEASURES IN THE NEAR FUTURE.

8. HEALEY ANNOUNCED TO REPORTERS THAT, AT HIS SUGGESTION, ORTOLI WOULD UNDERTAKE VISITS TO ALL MEMBER STATE CAPITALS, BEGINNING THIS WEEK, TO ASSESS THEIR PLANS FOR EXPANSION AND TO DETERMINE WHAT CONTRIBUTION EACH MEMBER STATE CAN MAKE TOWARD MEETING THE 4.5 PERCENT TARGET. (NOTE: WE

HAVE LEARNED THAT ORTOLI EMBARKED ON THE FIRST LEG OF THESE TRAVELS ON APRIL 18, WHEN HE LEFT FOR DISCUSSIONS IN ROME.) HEALEY SAID THAT THE GERMAN POSITION WOULD BE LIMITED OFFICIAL USE

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LEFT OPEN AND THAT, AT THE JUNE COUNCIL MEETING, THE MINISTERS WILL SEE WHAT DIFFERENCE ANY GERMAN CONTRIBUTION WOULD MAKE, IN THE LIGHT OF CONTRIBUTIONS BY THE OTHER MEMBER STATES.

9. DANISH FINANCE MINISTER HEINESSEN (COUNCIL PRESIDENT) TOLD REPORTERS THAT THE COPENHAGEN SUMMIT FOLLOW-UP WOULD NOW PROCEED ON TWO FRONTS. THE COMMISSION IS TO SUBMIT A PRELIMINARY REPORT TO THE MAY 22 FINANCE COUNCIL, ASSESSING THE ECONOMIC SITUATION IN EACH MEMBER STATE, BASED ON CURRENT ECONOMIC POLICIES, AND PROVIDING A PRELIMINARY DEFINITION OF THE NEED FOR AND SCOPE OF POSSIBLE NEW MEASURES IN INDIVIDUAL MEMBER STATES, WITH THE AIM OF REACHING THE JULY 1979 4.5 PERCENT GROWTH TARGET. THE MONETARY COMMITTEE AND THE BOARD OF CENTRAL BANK GOVERNORS WILL ALSO STUDY THE COPENHAGEN STRATEGY AND REPORT TO EITHER THE MAY 22 OR THE JUNE 19 FINANCE COUNCIL.

10. IMF INTERIM COMMITTEE:

COUNCIL DISCUSSION OF POSITIONS TO BE TAKEN BY THE EC AT THE MEXICO CITY INTERIM COMMITTEE MEETING RESULTED IN AGREEMENT ON SEEKING A RAISE IN THE SDR INTEREST RATE AND IN WHAT HEALEY DESCRIBED AS GENERAL SUPPORT FOR A "MODEST ADDITIONAL ALLOCATION OF SDR." ACCORDING TO PERMREP OFFICIALS, THE COMMUNITY WILL SEEK AN INCREASE OF THE SDR INTEREST RATE FROM 60 PERCENT TO 80 PERCENT OF THE CURRENT BASKET OF AVERAGE REFERENCE INTEREST RATES. AT THE SAME TIME, THE COMMUNITY SUPPORTS A REMUNERATION RATE AT 80 PERCENT OF THE SDR INTEREST RATE (THE REMUNERATION RATE WOULD THEN BE 64 PERCENT OF THE INTEREST RATE BASKET). THE MINISTERS WERE UNABLE TO AGREE ON A COMMON POSITION REGARDING AN INCREASE IN THE AMOUNT

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OF SDR; HEALEY TOLD REPORTERS THAT ALL BUT THE GERMANS WERE IN FAVOR OF SUCH AN INCREASE, ADDING THAT EVEN THE GERMANS DID NOT CLEARLY EXPRESS DISAPPROVAL. MATTHOFER HIMSELF TOLD REPORTERS THAT THE QUESTION OF AN SDR INCREASE WAS NOT AN URGENT PROBLEM FOR THE FRG, AND THAT THE SAME APPLIES TO THE SEVENTH IMF QUOTA REVIEW.

11. HEALEY SAID THAT THERE WAS "A LOT OF DISAPPOINTMENT" IN THE COUNCIL THAT THE WITTEVEEN FACILITY HAS NOT BEEN LEGALIZED, LARGELY, HE SAID, DUE TO THE CARTER ADMINISTRATION'S PROBLEMS WITH CONGRESS. AS A RESULT, SAID HEALEY, THE MINISTERS TOOK NO DECISIONS ON THE IMF QUOTA REVIEW. HEALEY SAID THAT THERE WAS GENERAL SUPPORT IN THE COUNCIL (WITH ONLY THE GERMANS NOT YET IN FAVOR) FOR WITTEVEEN'S SCHEME FOR SUBSTITUTING SDR FOR DOLLARS IN CENTRAL BANK HOLDINGS. HE SAID THAT IT WOULD BE VERY HELPFUL, AND WOULD MARK A BIG SHIFT, IF THE USG WERE TO SUPPORT THE SCHEME. ASKED IF HE HAS ANY GROUNDS FOR EXPECTING SUCH U.S. SUPPORT, HEALEY SAID THAT THE PRESENT LIMITED OFFICIAL USE

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USG ATTITUDE WAS NOT VERY CLEAR, BUT THAT IT WAS AT LEAST BETTER THAN THE PREVIOUS ADMINISTRATION'S "HOSTILE" ATTITUDE. HEALEY SAID THAT IT WOULD BE THEORETICALLY POSSIBLE TO INTRODUCE A SUBSTITUTION ROLE FOR SDR WITHOUT ANY INCREASE IN SDR ALLOCATIONS, BUT THAT HE THOUGHT THE GERMANS MIGHT HAVE SOME MISGIVINGS ON THIS SCORE.

12. HEALEY TOLD REPORTERS THAT THE CENTRAL QUESTIONS AT THE MEXICO MEETING WILL BE WHAT THE IMF CAN DO TO PROVIDE MORE SECURE FINANCING FOR DEFICITS, PARTICULARLY IN DEVELOPING COUNTRIES, AND THE RELATED POINT OF WHAT THE

IMF CAN DO, IF ANYTHING, TO REDUCE CURRENCY INSTABILITY.
HE SAID THAT HE EXPECTS NO DECISIONS WILL BE TAKEN IN
MEXICO AND THAT HE THINKS IT MORE LIKELY OFFICIALS WILL BE
INSTRUCTED TO WORK OUT FURTHER PROPOSALS FOR DISCUSSION
AT THE IMF ANNUAL MEETINGS IN SEPTEMBER.

13. MATTHOFER COMMENTS ON U.S. GOLD SALES:

ASKED BY REPORTERS TO COMMENT ON U.S. GOLD SALE POLICY,
MATTHOFER SAID THAT, ALTHOUGH HE DOES NOT KNOW FOR SURE
WHAT THAT POLICY MIGHT BE, IT WOULD BE HELPFUL FOR THE
U.S., AS A NET GOLD IMPORTER, TO SELL ANY OF ITS GOLD
DOMESTICALLY, THEREBY REDUCING DEMAND FOR EXTERNAL GOLD
AND MITIGATING CURRENT BALANCE OF PAYMENTS DIFFICULTIES.

14. INSURANCE SECTOR:

THE COUNCIL AGREED IN PRINCIPLE TO A DIRECTIVE ON THE
LIBERALIZATION OF CO-INSURANCE OPERATIONS AND THE
COORDINATION OF NATIONAL LAWS, REGULATIONS, AND
ADMINISTRATIVE PROVISIONS RELATING TO CO-INSURANCE.
FORMAL APPROVAL OF THE DIRECTIVE IS EXPECTED AS AN
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A-POINT (WITHOUT DISCUSSION) IN THE NEAR FUTURE. HINTON

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